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22883 Top Secret 219

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NATIONAL INTELLIGENCE DAILY CABLE

Saturday 18 March 1978

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State Dept. review completed

Top Secret

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National Intelligence Daily Cable for Saturday, 18 March 1978.

The NID Cable is for the purpose of informing senior US officials.

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## USSR-LEBANON: Reaction to Israel

25X1 [ ] The USSR's public response to the Israeli action in southern Lebanon has not been particularly harsh thus far; the Soviets have made no private representations. The Soviet coverage of the Israeli attack suggests that the USSR wants to retain the option of playing a role in securing an Israeli withdrawal. Soviet media commentaries, however, have pointed to US complicity.

25X1 [ ] A TASS statement on Thursday called for collective action to stop the Israeli aggression--an endorsement of Arab efforts to take the matter to the UN. TASS made only indirect allegations about US support for the Israeli attack by stating that the Israelis could not have launched their attack without "at least tacit support" from those who provide arms to Israel.

25X1 [ ] *Pravda* on Thursday described the Israeli attack as an "unprovoked criminal aggression" against a sovereign state. Its veteran commentator, Yuriy Zhukov, suggested that the Israelis were following a long-calculated plan. Zhukov also argued that the US response indicates it had consented to the operation and that Egyptian President Sadat's recent policies were responsible for the self-confidence of the Israeli aggressors.

25X1 [ ] Neither commentary referred to the Fatah terrorist attack on 11 March, which the Soviets have played down as an "armed clash" between Palestinian partisans and the Israeli Army. The Soviets usually approve "legitimate" guerrilla operations conducted inside Israel and the occupied territories as opposed to "terrorist" operations against civilians outside this area. [ ]

## SPAIN: Finance Minister Visits US

25X1 [ ] Spanish Finance Minister Francisco Fernandez-Ordonez will talk with US Treasury officials in Washington on Monday about the future of the Spanish economic austerity program--known as the Moncloa Pact--and bilateral economic issues. The Export-Import Bank, International Monetary Fund, and World Bank are also on his itinerary. Fernandez-Ordonez was the main survivor of Prime Minister Suarez' realignment of the Spanish economic team late last month.

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[ ] Fernandez-Ordonez will attempt to clarify the course of Spanish economic policy following the cabinet shake-up in which Prime Minister Suarez replaced five ministers. Suarez made the changes when it became clear that debate within the cabinet over the austerity program was undermining its implementation.

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[ ] The Finance Minister is likely to emerge as the key economic policymaker on the new team. The official head of the team, however, is former Deputy Premier Fernando Abril Martorell, who has succeeded the chief architect of the Moncloa Pact, Fuentes Quintana. Replacement of Fuentes Quintana and the ministers for industry, labor, agriculture, and transportation was not so much to alter the economic program as to create harmony within the cabinet.

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[ ] Although the Moncloa Pact will continue to be the basis for economic policy, adjustments probably will be made to ease the problem of rising unemployment, now estimated at more than 8 percent. Unemployment threatens to hit 11 percent, or 1.5 million workers, before the end of the year. The leftist parties can be expected to call for new measures that would expand employment and increase benefits for the jobless.

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[ ] Because continued slack investment and many business failures would mean more unemployment, both the left and the right will pressure Madrid for an easing of credit and a slower paced austerity program. With the possibility of facing a national election later this year, Suarez is likely to be responsive to such demands.

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[ ] Besides clarifying Spanish economic policy with the US, IMF, World Bank, and the press, Fernandez-Ordonez will raise bilateral economic issues in discussions with US officials. These are likely to include:

- A request for reduction of US countervailing duties against a number of Spanish products.
- A request for individual import quotas on Spanish-produced stainless steel bar.
- An explanation of Spain's energy plan, which is now under revision.

[ ] Fernandez-Ordonez also may indicate that Madrid is considering reducing the capital requirements in present legislation to permit foreign banks in Spain. [ ]

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# UNITED KINGDOM: Defense Budget

[ ] //Parliamentary approval this week of the British Government's White Paper on defense policy reverses more than a decade of cuts in arms expenditures. During two days of debate, both left and right sharply but predictably attacked the government's position. North Sea oil revenues and an improving economic picture have enabled the government, which has been under increasing pressure from NATO allies, to increase its defense spending.//

[ ] //Although the British have made previously announced cuts in defense spending for the current fiscal year, the government's plan calls for a 3-percent spending increase in real terms each year through 1982. After 1980, the figures are subject to review based on economic conditions and the state of arms limitation negotiations.//

[ ] //Defense Secretary Mulley encountered heavy opposition from the leftists in the governing Labor Party and had a difficult time winning cabinet support for the new policy. An unsuccessful move sponsored mostly by Labor's "Tribune" group and other leftists called for Parliament to spend the extra funds allotted for defense for pressing social needs.//

[ ] //Conservative leaders criticized the government for not going far enough to increase military spending and denounced the government for waffling on the low level of armed forces pay. A government decision on pay is expected soon; increases are expected to be in line with the anti-inflationary 10-percent ceiling.//

[ ] //The government agreed to continue support for detente and arms control but argued that additional defense spending is necessary to maintain Britain's commitment to NATO in the face of a continuing threat from the Warsaw Pact. Other NATO members have made it clear that they will no longer accept the UK's argument that it must hold down military spending because it lacks funds. Much of the planned increase will be used for beefing up tactical and conventional weapons and forces and increasing manpower.//

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[ ] //The government also promised to improve the Polaris system but has yet to decide whether to produce a cruise missile as an alternative. Both the cruise missile and neutron warhead are under attack by Labor's left wing, which wants to end Britain's nuclear role once Polaris is phased out. Prime Minister Callaghan and Secretary Mulley have defended the neutron warhead by citing the Soviet threat and hinting that the weapon can be used to enhance deterrence.//

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[ ] //The increase in defense expenditures is not likely to become an important election issue, and as long as the British economy continues to improve, the moderate annual increases in defense spending are likely to continue whether a Labor or Conservative government is in power. [ ]

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# KENYA: Hard Line Against Somalis

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[ ] //Kenya shows no sign of easing its hard line against Somalia. [ ]

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[ ] Kenya may believe it can eventually extract some concessions from the Somalis in view of their weakened military position.//

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[ ] The Kenyan Government continues to excoriate the Somali Government and to voice support for Ethiopia. This week, while receiving the Ethiopian Ambassador, Kenyan Foreign Minister Waiyaki branded Somali President Siad the outcast of Africa for not renouncing Somali territorial claims and publicly welcomed news of Ethiopia's victory.

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[ ] Another Kenyan Foreign Ministry official this week said Nairobi could not accept any commitment by Siad to respect Kenya's borders that is not announced publicly and recognized by both the OAU and the UN. He said any agreement with Somalia would have to be "stronger and more specific" than the agreement in 1967 that ended several years of Somali-supported guerrilla activity in northeastern Kenya but did not require Somalia to relinquish its territorial claims.

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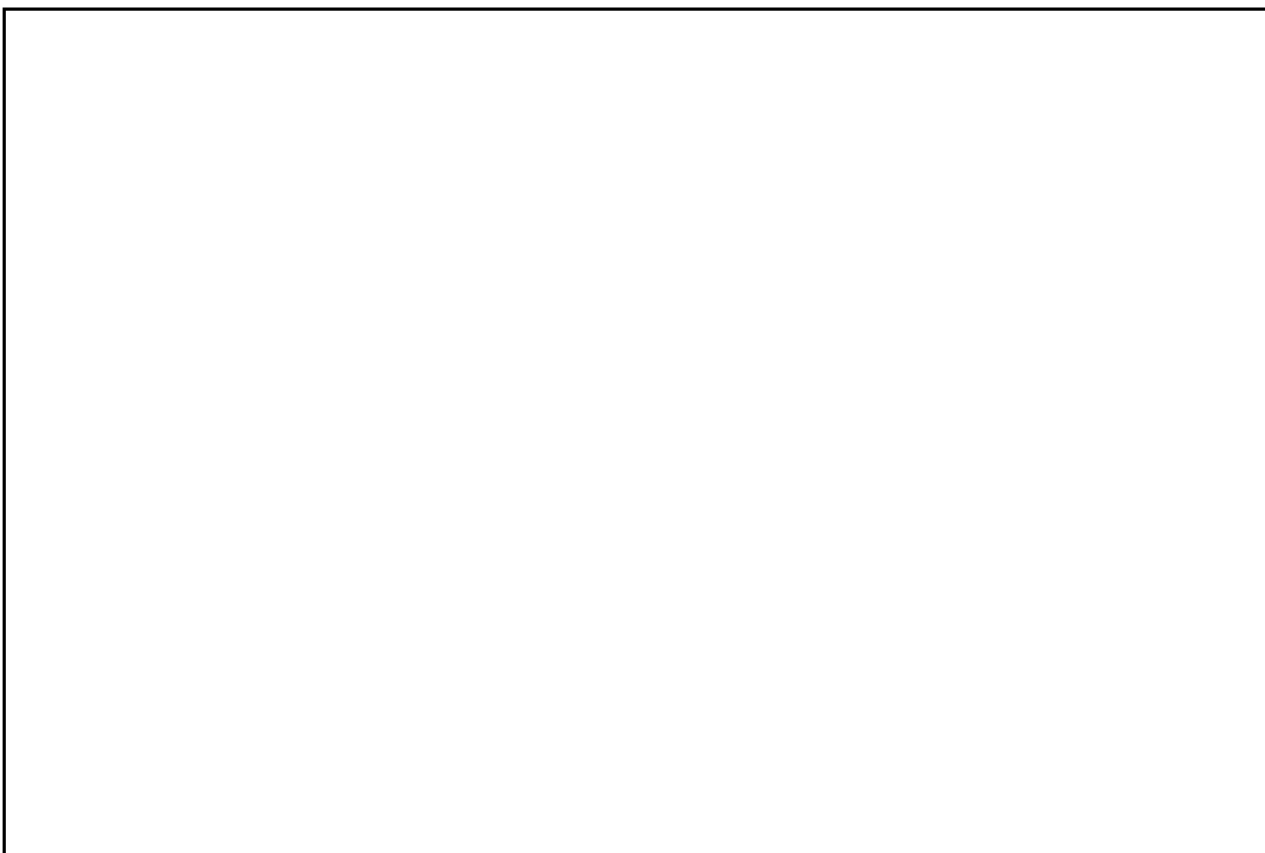
[ ] The Foreign Ministry official said that, even with a Somali guarantee, Kenya would be unhappy if the US were to supply defensive arms to Somalia. The official questioned Somalia's need for defensive arms and said most Kenyans would conclude Somalia only wanted additional weapons to prepare for another



attack on her neighbors. A high-level defense official echoed this view, saying that the Kenyan military cannot contenance the US sending arms to Somalia.

25X1 [ ] The US Embassy in Nairobi reports that several Kenyan officials have made it clear that any US provision of arms to Somalia would dampen Kenya-US relations, but any damage would be limited by additional US cooperation in helping Kenya meet its own defense needs. Kenyan Government officials, for example, were pleased with the results of Vice President Moi's recent trip to the US, especially with assurances by the US that it would give sympathetic consideration to Kenya's additional security needs. [ ]

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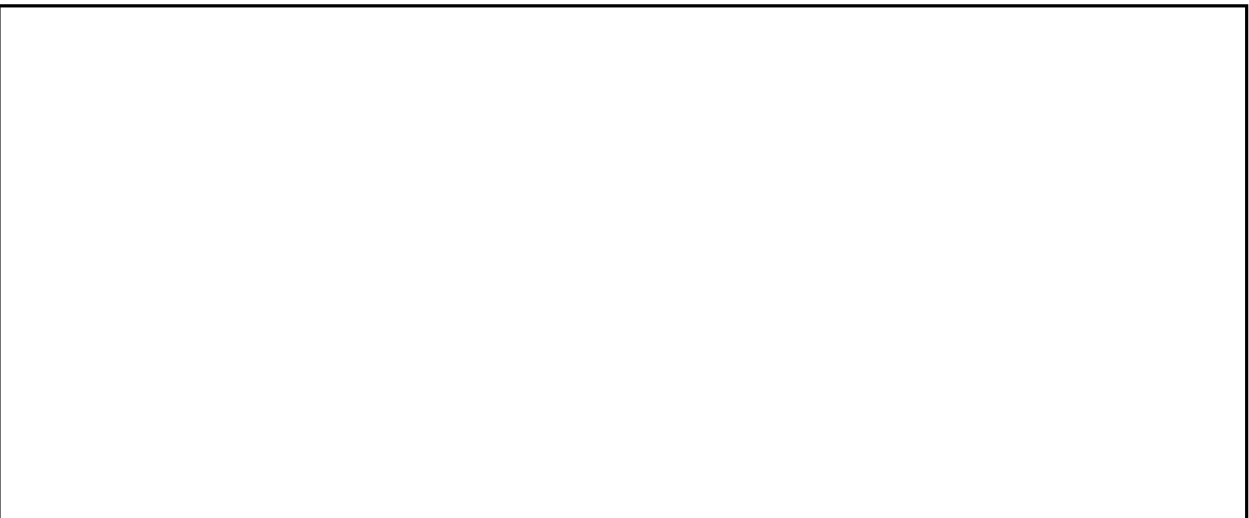
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## PANAMA: Canal Treaty Reactions

25X1 [ ] //Panama has indicated it will reserve final judgment until the US Senate concludes action on both canal treaties, but the government is likely to go along reluctantly with the amended neutrality pact on the presumption it can avoid a second plebiscite. The situation is still fluid, however, and Chief of Government Torrijos is clearly unsure whether he can get away with accepting the Deconcini reservation. The decision to make a measured public response must have been an extremely difficult one for the volatile Torrijos.//

25X1 [ ] Panamanian chief treaty adviser Escobar, in a speech Thursday following the US Senate vote, stated that his government would have to study carefully the Senate modifications but concluded by noting that the changes appear "fairly palatable". Some of the tougher language in the speech--warnings that Panama will not accept any offense to its dignity--reflected bitter disappointment over some of the Senate alterations. Panama may also want to ward off further Senate changes in the second treaty.

25X1 [ ] By emphasizing that the Senate additions do not alter the essence of the original treaties, Escobar was probably laying the groundwork for a contention that a second plebiscite in Panama is unnecessary.



25X1 [ ] Torrijos' final decision on the treaty package will be influenced by his inner group of advisers and his reading of

public sentiment for a second plebiscite. Students--who represent some of the most vocal and potentially violent opposition to the treaties--are on vacation until 10 April, giving the government some respite from pressure from that sector. [REDACTED]

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#### RHODESIA: Internal Settlement

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[REDACTED] The presidents of the African frontline states are meeting in Mozambique this weekend to plan their response to the internal settlement agreement announced earlier this month by Rhodesian Prime Minister Smith and black leaders inside Rhodesia. The meeting will be marked by a heightened sense of frustration stemming from a lack of clear alternatives to the internal settlement.

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[REDACTED] The presidents have been unable to persuade Patriotic Front coleaders Joshua Nkomo and Robert Mugabe to be more cooperative on the Anglo-American plan for a Rhodesian settlement. They also are frustrated over the continued refusal of the two leaders' military organizations to mount a joint offensive against the Smith regime.

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[REDACTED] Mozambican President Machel in particular believes only a concerted military effort can disrupt the settlement process under way in Rhodesia. To that end he is willing to let both groups operate from Mozambique even at the risk of further Rhodesian retaliation.

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[REDACTED] Unless the presidents decide to assume direct control over the guerrillas--which Tanzanian President Nyerere has suggested in the past--the meeting is not likely to result in any greater effectiveness in the campaign against the internal settlement plan. [REDACTED]

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#### BOLIVIA-CHILE: Relations

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[REDACTED] Bolivia yesterday broke diplomatic relations with Chile, a move probably designed to quell increasing domestic criticism of the failure of President Banzer's government to reacquire the access to the sea that Bolivia lost to Chile 99 years ago as a result of the War of the Pacific.

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[ ] As the 9 July Presidential election draws near, the government's controversial diplomacy concerning the sea outlet has become a major campaign issue. Critics of presidential candidate Juan Perada, hand-picked by Banzer to be his successor, claim that Banzer has been maneuvering to surrender Bolivian territory for an inadequate strip of Chilean coast. La Paz's declaration is no doubt aimed at setting forth the government's position on the issue.

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[ ] Bolivia previously broke relations with Chile in 1962; ties were restored in 1975. [ ]

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#### AUSTRALIA: Uranium Supplies

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[ ] //Australia may be unable to supply one-fourth of the uranium it has agreed to provide to other countries through the mid-1980s because of delays in bringing new mines into operation, according to a statement last week by Deputy Prime Minister Anthony. In addition to threatening the country's future foreign exchange earnings, Australian production difficulties could result in a tight world market for uranium and force consumers to scramble for alternative supplies.//

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[ ] //Australia is committed to supplying its customer countries nearly 11,000 tons of uranium between now and 1986. Actual production may fall short of this goal by about 2,700 tons, primarily because of delays in opening new mines in the uranium-abundant Northern Territory.//

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[ ] //Bureaucratic footdragging is now the primary cause for the delays, as the Australian Council of Trade Unions, which earlier opposed the opening of new mines, gave the go ahead to increased production in February. In addition, financial and technical difficulties plague the only mine now in operation.//

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[ ] //The shortfall could force Japan, the major purchaser of Australian uranium, to look elsewhere to meet its requirements. Unless Canberra gives speedy approval to new mining ventures, other countries now looking to Australia as a future source of uranium oxide also would be forced to turn to other suppliers.//

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25X1 [ ] //It takes two or three years for a newly commissioned mine to become fully operational. With all of its mines in full operation by 1985, Australia could provide about one-fourth of the output of the Western world outside the US.//

25X1 [ ] //Failure to meet its commitments could further damage Australia's reputation as a reliable supplier and could cost Canberra billions of dollars in export earnings during the next decade. Australia expects its export earnings from uranium to offset about half of its annual \$1 billion to \$2 billion oil import bill in the 1980s. [ ]

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#### PAKISTAN: Bhutto Found Guilty

25X1 [ ] *A Pakistani court early today convicted former Prime Minister Bhutto of conspiracy to commit murder and sentenced him to death.*

25X1 [ ] There has been no reaction yet from Bhutto's followers, but it was widely expected that they would take to the streets. The government in the past few weeks has banned all political activity and jailed hundreds of activists in Bhutto's party in an effort to limit violence. The party still has significant popular support, and the US Embassy believes that a sustained confrontation could force changes in the military government's leadership.

25X1 [ ] Chief Martial Law Administrator Zia-ul-Haq, who has sought Bhutto's removal from politics, clearly wanted a guilty verdict. Given the longstanding independence of the Pakistani judiciary, however, the verdict was probably not the result of political pressure. [ ]

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